

THIS AMENDMENT:		
_____ Passed _____	Passed as amended by _____	
_____ Failed _____	_____ Not Offered _____	_____ Withdrawn _____

GLEASON PROPOSED AMENDMENT # 1

DATE PREPARED: December 14, 2004

COMPANY: UniSource Energy Corporation

DOCKET NO. E-04230A-03-0933

OPEN MEETING DATE: December 20, 2004

=====

THE PROPOSED TRANSACTION

Page 5, after line 13, INSERT:

“Additional Concessions by Applicant

In its Exceptions, Applicant agreed to numerous additional concessions. First, Applicant agreed to accept all 43 conditions proposed by Staff as set forth in Exhibit C.

Second, Applicant agreed to fund an additional \$12.5 million of “economic benefits.” From this \$12.5 million, Applicant agrees to fund an additional \$2.5 million above its historic charitable and community corporate giving program levels between 2005 and 2008. The remaining \$10 million would fund programs approved by the Commission for use between 2005 and 2008. The Applicant recommends that the funds be used for demand side management projects and low income assistance programs.

Third, Applicant agrees to make changes to the limited partnership arrangements and Boards of Directors to address certain concerns as discussed in Applicant’s Exceptions. The Investors have agreed that the following revised consent rights are to be included in the limited partnership agreement:

Description of Consent Rights

Changes to capital Structure and Dividend Policy

- mergers, divestitures, dividends and similar transactions that would treat the limited partners on a non pro rata basis

- issuances of equity interests (except to employees and directors of up to 5% of fully diluted equity pursuant to an approved equity plan)
- amendment of existing dividend policies of Saguaro Holdings or any subsidiaries

Significant Corporate Transactions Outside the Ordinary Course

- mergers, divestitures, joint ventures, changes in principal line of business and similar transactions
- deviation from the operating or capital budget and business plan by:
 - acquiring another entity or assets, except for products, supplies and equipment not in excess of \$25 million or otherwise in the ordinary course consistent with past practice;
 - other than in the ordinary course consistent with past practice, disposing of any business or assets in excess of \$25 million;
 - making capital expenditures that vary by an amount greater than \$25 million per event or series of related events;
 - voluntarily incurring debt in excess of \$25 million; or
 - permitting the material acceleration of any debt or making early prepayment of debt in excess of \$25 million
- adoption of an annual budget or business plan with an increase of more than 15% from the prior fiscal year
- commencement of any bankruptcy or receivership proceeding
- initiation, settlement or compromise of actions in excess of \$25 million or that would require Saguaro LP to be subject to equitable relief
- adoption or certain amendments of any employee stock option plan or adoption or amendment with an impact greater than \$25 million per event or series of related events to any other material employee benefit plan or the employment agreement of a CEO

Conflicts of Interest and the Structure of the Partnership

- material transactions involving conflicts between Saguaro LP and any partner or the payment of fees by Saguaro LP to any partner
- amendment of formation or organizational documents of Saguaro LP or its subsidiaries that affects the rights of partners

- conversion of Saguaro LP into a corporation or a limited liability company
- taking of, or failure to take any action that would result in any Investor or its affiliates (other than the Partnership and its subsidiaries)
 - being deemed to be engaged in any United States trade or business for federal tax purposes or having unrelated business taxable income for Federal tax purposes
 - being deemed to be a “holding company” or a “subsidiary company” or an “affiliate” of a “holding company” or a “public utility company” under PUHCA or any similar state or federal law, or a “public utility” under the Federal Power Act or
 - being subject to any other federal or state regulation that in the reasonable discretion of 70% of the voting interest in the Investors would have an adverse affect on the Investors

As set forth in Applicant’s Exceptions, the expansion of the membership of the Boards of Directors require the following Boards to have a minimum number of Directors. UniSource and its affiliates will commit to have Boards of Directors as shown below:

Company	Pre-Merger Board Size	Original Proposal Board Size	New Proposed Board Size (minimum)
Saguaro Holdings	N/A	2	3
UniSource	10	4	5
TEP	8	5	7
UES	7	7	7
UNS Gas	3	5	7
UNS Electric	3	5	7

Saguaro Holdings Board (3 Directors). Messrs. James Pignatelli and Rentschler are expected to serve on the Saguaro Holdings Board of Directors after the Merger. Saguaro Holdings also agrees to add a third Director with experience in regulated utilities.

UniSource Board (5 Directors). The three members of Saguaro Holdings’ Board of Directors will serve on the UniSource Board of Directors after the Merger, together with the current chairmen of UniSource Energy’s Audit Committee and Finance Committee.

TEP Board (7 Directors). The five members of UniSource's Board of Directors will serve on the TEP Board of Directors after the Merger, together with two directors who will be independent of UniSource, Saguaro Holdings and the Investors.

UES, UNS Gas and UNS Electric Boards of Directors (7 Directors). The five members of UniSource's Board of Directors will serve on the respective Boards of Directors of UES, UNS Gas and UNS Electric after the Merger, together with two directors who will be independent of UniSource, Saguaro Holdings and the Investors.

In addition, at least two members of each of the respective Boards of Directors of TEP, UES, UNS Gas and UNS Electric would be Arizona residents. (TR at 835-837; A-3 at 6.) ”

Make all conforming changes.